

**UTILITY ADVISORY BOARD**  
**Thursday, February 19, 2015**  
**8:00 a.m.**  
**Grand Rapids Water Office**  
**1900 Oak Industrial Drive NE**

**AGENDA**

1. Approval of Minutes – January 15, 2015 (attached)
2. Public Comment on Agenda Items
3. Financial Reports (Q2-FYTD15) (attached)
  - a. Sewage Disposal System (SDS)
  - b. Water Supply System (WSS)
4. WSS 2015 Report of Bond Sale (attached)
5. Contract Awards – January 2015 (attached)
6. Updates
  - a. Expansion of Tallmadge Township's USD
  - b. Steelcase Sanitary Sewer Payback Agreement
  - c. Moody's WSS Series 2015 Bond Rating – Aa2 Stable (attached)
  - d. S&P's WSS Series 2015 Bond Rating – AA Stable (attached)
  - e. 5-Year Extension of Water/Sewer System Agreements
  - f. Rate Review Sub-Committee
7. Info. Item: Coke's new 'premium milk' bottled in W. Mich. (attached)
7. Items from Members
8. Next Meeting – Thursday, March 19 – Where?
9. Adjournment

**Utility Advisory Board  
January 15, 2015**

**1. Call to Order:**

The meeting was called to order by Brian Donovan, at 8:00 a.m. at Grand Rapids Water Office, 1900 Oak Industrial Drive NE.

**2. Attendance:**

Members Attending:

Haris Alibasic (alternate for Schroeder)  
Tim Bradshaw  
Brian Donovan  
Geri Eye  
George Haga  
Wayne Jernberg  
Mike Lunn  
Pam Ritsema  
Ed Robinette  
Darrell Schmalzel  
Breese Stam (alternate for DeClercq)  
Ben Swayze  
Joellen Thompson

Others Attending:

Nancy Meyer  
Nicole Pasch  
Doug LaFave

Members Absent:

Mark DeClercq  
Eric DeLong  
Mike DeVries  
Richard Robertson  
Chuck Schroeder  
Toby VanEss  
Josh Westgate

Introductions: Brian Donovan introduced Doug LaFave, new Assistant City Manager and Public Works Director for the City of East Grand Rapids. It was noted that Mr. LaFave will begin serving as the regular member of the UAB with Mr. Donovan now being the alternate member.

**3. Approval of Minutes:**

**Motion 15-01** Tim Bradshaw, supported by Wayne Jernberg, moved approval of the minutes of the December 18, 2014, Utility Advisory Board meeting as presented. Motion carried.

**4. Public Comment:** There was no public comment.

**5. Water System FY16-FY20 Capital Budget**

Joellen Thompson referred members to the information in the packet and briefly reviewed the capital projects. She indicated that we are starting to see the Vital Streets projects folding into our projects. Wayne Jernberg reviewed some of the projects that will impact the customer communities. These include some energy efficiency projects at the Lake Plant and we will probably be working with a consultant to do some non-invasive inspection of the main coming in from the Lake.

**6. Water – Asset Mgt. Planning**

Wayne Jernberg referred members to the information in the packet and then to the column called “Postberg” In this column Mr. Postema and Mr. Jernberg provided the results from their review using a range of 1 – 100 with 100 being those most in need of repair/replacement. The process used now is fairly labor intensive. They hope to be able to move to a more user friendly system that will provide the same accuracy level. It was noted that on page 16 of the packet there is a breakdown of the various sections that they went through and assessed. Mr. Jernberg then went into more detail on how the assessment was made on each section.

Arden Postma reviewed the example provided and explained how they came up with the score on that project.

**7. Sewer System FY16-FY20 Capital Budget**

Mike Lunn reported that the only thing left on the CSO project is one small stretch on Fulton Street and then the required work is complete. There is one optional project that will also be done this Spring. This leaves us with a couple areas that are still combined, but we are essentially done then with this project.

The next step is the SSO as a mandate from the State. Our current permit expired in 2010 and we still don’t have a new one. We continue to negotiate on this. The number of sanitary sewer projects is down significantly from previous years.

We are also implementing new software in February for I&I evaluation based on the real-time monitors we have.

Haris Alibasic reported on the solar project being looked at for the Butterworth site. The plan is to enter into a power purchase agreement with the developer in exchange for a long-term contract for the provision of electricity. It is best to work with the private sector as they can capture the tax credits that the City cannot. We should be issuing an RFP today. Mike Lunn added it will be important that there is a long-term return on investment.

We are in the process of developing a sewer model for asset management for identification of projects. Arden Postma reported that the storm sewer has already been entered into the new system for asset management which will extract the information for us rather than being so labor intensive. The categories of review are a little different for sanitary sewer than for water. The cost is very high to do a condition assessment

for the entire system so they are planning to assess the oldest pipes on a systematic basis.

**8. 2<sup>nd</sup> Quarter FY15 Operational Graphs**

Geri Eye referred members to the three graphs in the packet.

The spikes in sewer in April 2013 are from the flood we experienced. Those later in the year are due to the particularly difficult winter we had last year. Water's experience has been very similar to the prior year.

Treated flow for sewer is up a little bit and for water is down a little bit from the prior fiscal year.

Year to date billed flow is very consistent compared to the previous year. FY13 was a high volume year for both systems and will fall off the 3-year average next year.

**9. Contract Awards**

Breese Stam referred members to the yearly summary provided in the packet. He noted that the integrated amount for sewer was "0." Mike Lunn noted this is due to the work that was done being mostly CSO work. There was \$1.9 million in integrated costs in water throughout the year.

**10. Information Items**

CCTV Alternatives Article – Mike Lunn reported that the need for more articles was announced during a round table discussion at a conference. He has now committed to provide one article per quarter. This is the second such article. He explained how this system works and discussed some other new items that are on the market to help with lining that we are looking at.

**11. Consumers Energy**

Joellen Thompson reported that we completed a major project at Coldbrook which will save a lot of energy. A rebate check has been received from Consumers Energy for about \$147,000. This will be presented to the City Commission at their meeting on the 24<sup>th</sup>.

**12. 5-year extension**

Nancy Meyer reported that all of the extensions are now in except for East Grand Raids and Grand Rapids Township.

Ed Robinette indicated Grand Rapids Township is waiting for the report of the Rate Review Sub Committee before taking action.

Brian Donovan indicated that East Grand Rapids has theirs done and will get a copy to Nancy Meyer.

### **13. Rate Study Review Committee**

Nancy Meyer reported that we need to bring this group back together now that the Rate Study is complete and underway. She will try to get something on the calendar for February to move this work forward.

### **14. Updates**

Joellen Thompson reported on water main breaks. There were about 14 in December which is fairly normal. We have had 22 already in January which is quite high. They have slowed now somewhat. We are hoping not to have a repeat of last year.

Wayne Jernberg reported that he is working with Tallmadge Township and Ottawa County on getting water back to a camp that is located off Lake Michigan Drive.

Tim Bradshaw reported that he is working with Grand Rapids staff on the Steelcase Sanitary Sewer payback. Grand Rapids was to pay Steelcase back upon completion of a project. This needs to be completed. An update on this will be provided to the UAB in February.

Haris Alibasic reported that there is a new rate case on Consumers Energy. UAB, in the past, has allowed us to participate in filing the intervention. Ideally, he would like to ask for some action on this today. Consumers Energy will self-implement the rates in June if we don't act. We have experienced a good return on investment with our past cases. Our partners are ready to file on this now. There is an opportunity this time to be more aggressive on addressing concerns such as RPS implementation and other things. He also noted that some of the partner communities also participated in the past, and he would like to encourage that as well. Brian Donovan asked how much he is looking for from communities. Mr. Alibasic indicated what various cities have done in the past. Whatever can be contributed helps to build the coalition and support.

**Motion 15-02:** Ed Robinette, supported by Ben Swayze, moved to place this issue on the agenda for discussion and action. Motion carried.

Mr. Alibasic noted that they are asking for a maximum of \$25,000 for this rate case.

George Haga noted that the Michigan Townships Association has not contacted them yet. They usually participate as well.

**Motion 15-03:** Ed Robinette, supported by Wayne Jernberg, moved to recommend participation in filing an intervention in the current Consumers Energy Rate case in an amount not to exceed \$25,000. Motion carried.

Mr. Alibasic thanked members and indicated that he will now take this forward to the Grand Rapids City Commission for their approval.

Ed Robinette reported that there is a small sewer extension on 14 mile road that will require an expansion of the service district. However, they are waiting for the report

on the Rate Review Subcommittee's work regarding connection fee reduction before they can move forward with this.

**15. Next Meeting**

The next meeting of the Utility Advisory Board is scheduled for Thursday, February 19, at Grand Rapids Water Facility.

**16. Adjournment**

The meeting was then adjourned.

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<b>SEWAGE DISPOSAL SYSTEM</b>				Fund:	SDS - SEWAGE DISPOSAL SYSTEM	
<b>FINANCIAL REPORT</b>				Subfund:	500 - RECEIVING/OPERATIONS	
<b>QUARTER ENDING 12/31/14</b>						
<i>Description</i>	<i>Group</i>	<i>FY14 Final</i>	<i>ADOPTED FY15 BUDGET</i>	<i>Q2FYTD-FY14</i>	<i>Q2FYTD-FY15</i>	<i>FY15/FY14 VARIANCE</i>
Retail Service Charges	1	\$ 44,237,652	\$ 47,743,334	\$ 18,327,756	\$ 18,698,784	\$ 371,027
Wholesale Service Charges	2	\$ 1,781,579	\$ 1,868,241	\$ 788,877	\$ 903,270	\$ 114,392
Sewer Surcharges	3	\$ 1,751,793	\$ 2,015,265	\$ 413,295	\$ 473,440	\$ 60,145
Front Footage Fees	4	\$ 106,570	\$ 45,900	\$ 42,200	\$ 25,040	\$ (17,160)
Integrated Connection Fees	5	\$ 838,054	\$ 673,200	\$ 462,151	\$ 520,984	\$ 58,834
Miscellaneous	6/7/8	\$ 1,723,205	\$ 1,154,600	\$ 479,741	\$ 339,653	\$ (140,088)
Total Revenue		\$ 50,438,851	\$ 53,500,540	\$ 20,514,020	\$ 20,961,171	\$ 447,151
Personal Services	700	\$ 8,924,119	\$ 9,992,435	\$ 4,144,260	\$ 4,210,456	\$ 66,196
Supplies	726	\$ 1,250,322	\$ 1,193,470	\$ 503,800	\$ 663,032	\$ 159,232
Other Services and Charges	800	\$ 10,923,448	\$ 12,541,378	\$ 5,333,389	\$ 5,837,324	\$ 503,935
Capital Outlay	970	\$ 188,351	\$ 264,062	\$ 60,715	\$ 106,669	\$ 45,954
Appropriation Lapse	996	\$ -	\$ (1,080,000)	\$ -	\$ -	\$ -
Transfers Out	999	\$ 2,716,022	\$ 2,917,535	\$ 1,284,421	\$ 1,458,767	\$ 174,346
Total Expenses		\$ 24,002,263	\$ 25,828,880	\$ 11,326,585	\$ 12,276,248	\$ 949,664
<b>Net Income (Loss)</b>		<b>\$ 26,436,589</b>	<b>\$ 27,671,660</b>	<b>\$ 9,187,435</b>	<b>\$ 8,684,923</b>	<b>\$ (502,513)</b>

SEWAGE DISPOSAL SYSTEM					Fund:	SDS - SEWAGE DISPOSAL SYSTEM	
FINANCIAL REPORT					Subfund:	500 - RECEIVING/OPERATIONS	
QUARTER ENDING 12/31/14							
GPFM OL3	Group	Description	FY14 Final	FY15 Budget	Q2FYTD-FY14	Q2FYTD-FY15	FY15/FY14 VARIANCE
476009	7	INDUSTRIAL PRETREATMENT PERMITS	\$ 55,853	\$ 68,900	\$ 1,690	\$ 913	\$ (777)
501902	8	FEDERAL EMERGENCY MGMT-PASS THR	\$ 44,429	\$ -	\$ -	\$ (44,429)	\$ (44,429)
539701	8	MI DEPT OF ENVIRONMNTL QUALITY	\$ 446,297	\$ -	\$ -	\$ -	\$ -
607001	8	MISCELLANEOUS SERVICE FEES	\$ 7,763	\$ 3,000	\$ 1,120	\$ 5,264	\$ 4,144
607009	8	PHOTOCOPY FEES	\$ -	\$ -	\$ -	\$ -	\$ -
607031	8	PRELIM/DESIGN/CONSTR ENGINEERIN	\$ -	\$ -	\$ -	\$ -	\$ -
607050	8	INSPECTION FEES - UTILITIES	\$ 40,331	\$ 20,400	\$ 25,806	\$ 17,831	\$ (7,975)
607051	4	FRONT FOOTAGE	\$ 106,570	\$ 45,900	\$ 42,200	\$ 25,040	\$ (17,160)
607053	5	INTEGRATED CONNECTION FEES	\$ 838,054	\$ 673,200	\$ 462,151	\$ 520,984	\$ 58,834
607055	1	RETAIL SEWAGE SERVICE	\$ 44,165,651	\$ 47,651,534	\$ 18,305,218	\$ 18,680,240	\$ 375,022
607056	1	WYOMING SEWAGE SERVICE	\$ 72,001	\$ 91,800	\$ 22,538	\$ 18,543	\$ (3,995)
607057	8	INDUSTRIAL DISCHARGE AUTHORIZAT	\$ 1,600	\$ 24,800	\$ 400	\$ -	\$ (400)
607059	5	SEWAGE CONNECTION FEES	\$ -	\$ -	\$ -	\$ -	\$ -
607060	2	WHOLESALE SEWAGE SERVICE	\$ 1,781,579	\$ 1,868,241	\$ 788,877	\$ 903,270	\$ 114,392
607061	4	SEWAGE FRONT FOOTAGE	\$ -	\$ -	\$ -	\$ -	\$ -
607074	3	SEWAGE SURCHARGE	\$ 1,751,793	\$ 2,015,265	\$ 413,295	\$ 473,440	\$ 60,145
642003	8	SALES - OTHER	\$ 349	\$ -	\$ 236	\$ 237	\$ 1
642009	8	SALE OF SCRAP MATERIAL	\$ 1,809	\$ -	\$ 1,291	\$ 398	\$ (893)
642019	8	INVENTORY WITHDRAWALS (SALES)	\$ 33,892	\$ 42,500	\$ 15,603	\$ 19,374	\$ 3,771
642024	8	UNMETERED WATER SALES	\$ -	\$ -	\$ -	\$ -	\$ -
665001	7	INTEREST ON INVESTMENT	\$ 229,542	\$ 150,000	\$ (14,311)	\$ (4,014)	\$ 10,296
665002	7	OTHER INTEREST INCOME	\$ -	\$ -	\$ -	\$ -	\$ -
672002	7	INTEREST/PENALTIES ON SPEC ASSM	\$ 11,730	\$ 10,000	\$ 2,692	\$ 1,602	\$ (1,089)
675003	9	CONTRIBUTED CAPITAL	\$ 490,912	\$ -	\$ -	\$ -	\$ -
676001	8	REFUNDS - EXPENDITURES	\$ 643,485	\$ 5,000	\$ 323,590	\$ 143,274	\$ (180,315)
676007	8	EXPENDITURE - REIMBURSEMENT	\$ 198,560	\$ 810,000	\$ 120,423	\$ 198,066	\$ 77,643
676017	8	REIMB.FOR PERSONAL USE OF CITY	\$ -	\$ -	\$ -	\$ -	\$ -
680001	10	BABS-Income-Federal	\$ 464,274	\$ -	\$ -	\$ -	\$ -
694004	8	CLAIMS/DAMAGE BILLINGS	\$ -	\$ -	\$ -	\$ 612	\$ 612
694012	8	NON-SUFFICIENT FUNDS CHECK CHG	\$ -	\$ -	\$ -	\$ -	\$ -
694014	8	MISCELLANEOUS OTHER	\$ 7,564	\$ 20,000	\$ 1,202	\$ 524	\$ (678)
698001	11	BOND PROCEEDS	\$ (1,297,414)	\$ -	\$ (746,938)	\$ (47,891)	\$ 699,047
699001	13	OPERATING TRANSFERS IN-SUBSIDY	\$ -	\$ -	\$ -	\$ -	\$ -
699005	12	OPERATING TRANSFERS-MISC	\$ -	\$ -	\$ -	\$ -	\$ -
		REVENUE TOTAL	\$ 50,096,623	\$ 53,500,540	\$ 19,767,082	\$ 20,913,280	\$ 1,146,198
7020	700	PERMANENT EMPLOYEES	\$ 5,193,441	\$ 5,840,393	\$ 2,440,942	\$ 2,424,212	\$ (16,730)
7025	700	ACT.ASSIGNMENT	\$ 37,397	\$ 13,000	\$ 17,081	\$ 7,658	\$ (9,423)
7040	700	TEMPORARY EMPLOYEES	\$ 45,373	\$ -	\$ 22,611	\$ 23,061	\$ 450
7050	700	REGULAR HOURLY RATE	\$ 3,137	\$ -	\$ 2,175	\$ 1,368	\$ (807)
7055	700	TIME & ONE-HALF	\$ 143,378	\$ 107,160	\$ 61,767	\$ 84,543	\$ 22,776
7105	700	EMPLOYERS SOCIAL SECURITY	\$ 387,708	\$ 457,016	\$ 181,327	\$ 180,608	\$ (719)
7110	700	HOSPITALIZATION INSURANCE	\$ 1,221,960	\$ 1,350,051	\$ 558,794	\$ 575,586	\$ 16,792
7115	700	RETIREE HEALTH CARE	\$ 778,634	\$ 718,405	\$ 337,390	\$ 295,722	\$ (41,668)
7120	700	RETIREMENT FUND CONTRIBUTION	\$ 1,019,652	\$ 1,471,741	\$ 479,278	\$ 606,404	\$ 127,126
7125	700	SPECIAL PENSION BENEFITS	\$ 21,718	\$ 9,493	\$ 9,765	\$ 250	\$ (9,515)
7135	700	UNEMPLOYMENT COMPENSATION	\$ 7,753	\$ 8,177	\$ 3,561	\$ 3,943	\$ 382
7150	700	LONGEVITY PAY	\$ 47,531	\$ -	\$ 23,140	\$ 77	\$ (23,063)
7160	700	TEMPORARY	\$ 15	\$ -	\$ -	\$ 27	\$ 27
7165	700	SHIFT DIFFERENTIAL	\$ 13,557	\$ 17,000	\$ 6,429	\$ 6,997	\$ 568
7175	700	FOOD/CLEAN/CAR ALLOWANCE	\$ -	\$ -	\$ -	\$ -	\$ -
7199	700	DEFAULT PAYROLL	\$ 2,864	\$ -	\$ -	\$ -	\$ -
7260	726	SUPPLIES	\$ 1,194,174	\$ 1,138,079	\$ 478,433	\$ 632,502	\$ 154,068
7300	726	POSTAGE	\$ 1,941	\$ 1,950	\$ 565	\$ 679	\$ 113
7680	726	CLOTHING	\$ 20,315	\$ 23,441	\$ 8,035	\$ 6,890	\$ (1,145)
7710	726	INVENTORY	\$ -	\$ -	\$ 1,163	\$ 3,588	\$ 2,425
7800	726	INVENTORY - COST OF GOODS SOLD	\$ 33,892	\$ 30,000	\$ 15,603	\$ 19,374	\$ 3,771
8140	800	COMPUTER SERVICES	\$ 313,079	\$ 312,158	\$ 156,540	\$ 156,079	\$ (461)
8142	800	Motor Equipment Charges	\$ -	\$ -	\$ -	\$ 210,061	\$ 210,061
8150	800	311 Call Center Services	\$ 6,451	\$ 29,328	\$ -	\$ 5,132	\$ 5,132
8160	800	ENGINEERING SERVICES	\$ 47,107	\$ 60,653	\$ 9,025	\$ 9,486	\$ 461
8180	800	CONTRACTUAL SERVICES	\$ 5,699,959	\$ 6,517,200	\$ 3,157,518	\$ 3,591,943	\$ 434,425
8355	800	CLAIMS	\$ 353,434	\$ 268,520	\$ 176,716	\$ 134,258	\$ (42,458)
8450	800	INSURANCE PREMIUMS	\$ 191,323	\$ 203,321	\$ -	\$ -	\$ -
8500	800	TELEPHONE	\$ 73,681	\$ 58,770	\$ 40,395	\$ 30,460	\$ (9,934)



<b>GPFM OL3</b>	<b>Group</b>	<b>Description</b>	<b>FY14 Final</b>	<b>FY15 Budget</b>	<b>Q2FYTD-FY14</b>	<b>Q2FYTD-FY15</b>	<b>FY15/FY14 VARIANCE</b>
8510	800	Employee Phone Reimbursement	\$ 1,876	\$ 4,278	\$ -	\$ 1,412	\$ 1,412
8800	800	COMMUNITY PROMOTION	\$ -	\$ 206	\$ -	\$ -	\$ -
9000	800	PRINTING & PUBLISHING	\$ 11,345	\$ 14,368	\$ 4,851	\$ 3,881	\$ (970)
9210	800	ELECTRICITY	\$ 2,291,745	\$ 2,451,980	\$ 966,566	\$ 1,049,532	\$ 82,965
9220	800	WATER	\$ 32,797	\$ 37,394	\$ 17,149	\$ 17,116	\$ (33)
9230	800	NATURAL GAS	\$ 270,480	\$ 258,829	\$ 37,000	\$ 36,706	\$ (294)
9300	800	MAINTENANCE SERVICE	\$ 20,147	\$ 485,709	\$ 47,462	\$ 48,733	\$ 1,271
9310	800	HOME REPAIR	\$ 172,015	\$ 150,000	\$ 80,889	\$ 27,632	\$ (53,258)
9330	800	PAVEMENT REPAIR	\$ 91,378	\$ -	\$ 36,094	\$ 40,735	\$ 4,642
9410	800	BUILDINGS RENTALS OR LEASE	\$ 21,347	\$ 22,407	\$ 7,116	\$ 11,276	\$ 4,161
9420	800	EQUIPMENT RENTALS OR LEASE	\$ 1,338,618	\$ 1,472,671	\$ 543,766	\$ 398,206	\$ (145,560)
9430	800	LAND RENTAL OR LEASE	\$ 3,115	\$ 7,500	\$ 1,789	\$ 2,789	\$ 1,000
9440	800	VEHICLE USAGE/CAR MILEAGE	\$ 11,580	\$ 12,917	\$ 5,660	\$ 5,741	\$ 81
9550	800	PROFESSIONAL DEVELOPMENT	\$ 12,223	\$ 27,697	\$ 4,804	\$ 3,059	\$ (1,745)
9552	800	OTHER TRAVEL & TRAINING	\$ 31,182	\$ 78,400	\$ 14,265	\$ 15,476	\$ 1,212
9554	800	LOCAL BUSINESS EXPENSE	\$ 5,270	\$ 5,806	\$ 2,082	\$ 6,161	\$ 4,078
9556	800	MEMBERSHIPS	\$ 9,363	\$ 18,025	\$ 3,357	\$ 5,971	\$ 2,614
9558	800	SUBSCRIPTIONS AND PUBLICATIONS	\$ -	\$ 4,806	\$ -	\$ -	\$ -
9610	800	FEES	\$ 49,021	\$ 26,575	\$ 20,345	\$ 25,478	\$ 5,133
9617	800	Late Fees-Utilities	\$ 5	\$ -	\$ -	\$ -	\$ -
9618	800	Late Fees-Other	\$ 52	\$ -	\$ -	\$ -	\$ -
9620	800	BAD DEBT WRITE-OFFS	\$ 89,759	\$ -	\$ -	\$ -	\$ -
9622	800	REFUSE COLLECTION CHARGES	\$ -	\$ 11,860	\$ -	\$ -	\$ -
9630	800	CAPITAL CONTRIBUTIONS	\$ (14,507,751)	\$ -	\$ -	\$ -	\$ -
9680	800	DEPRECIATION	\$ 13,644,126	\$ -	\$ -	\$ -	\$ -
9735	970	BUILDING ADDITIONS/IMPROVEMENTS	\$ -	\$ -	\$ -	\$ -	\$ -
9740	970	BOOKS/OTHER MATERIALS/ARTIFACTS	\$ 928	\$ -	\$ 32	\$ -	\$ (32)
9750	970	FURNITURE	\$ 12	\$ 14,000	\$ -	\$ -	\$ -
9760	970	EQUIPMENT	\$ 49,124	\$ 250,062	\$ 2,454	\$ 47,846	\$ 45,392
9765	970	SOFTWARE	\$ 138,287	\$ -	\$ 58,228	\$ 58,823	\$ 595
9800	970	CONSTRUCTION IN PROGRESS	\$ -	\$ -	\$ -	\$ -	\$ -
9950	990	INTEREST & PAYING AGENT FEES	\$ 12,070,116	\$ 12,339,388	\$ 112,649	\$ 489,689	\$ 377,041
9952	990	Amortization Expense	\$ (282,942)	\$ -	\$ -	\$ -	\$ -
9960	996	APPROPRIATION LAPSE	\$ -	\$ (1,080,000)	\$ -	\$ -	\$ -
9990	999	OPERATING TRANS OUT-SUBSIDIES	\$ 2,080,651	\$ 2,156,684	\$ 966,736	\$ 1,078,342	\$ 111,606
9992	999	OPERATING TRANSFERS-A87 COST	\$ 635,371	\$ 760,851	\$ 317,686	\$ 380,426	\$ 62,740
9993	999	OPERATING TRANS-CAPT PROJECTS	\$ 60,000	\$ 4,799,000	\$ 60,000	\$ 4,799,000	\$ 4,739,000
9995	999	OPERATING TRANS-MISC	\$ -	\$ -	\$ -	\$ -	\$ -
		EXPENDITURE TOTAL	\$ 35,210,714	\$ 42,967,268	\$ 11,499,233	\$ 17,564,937	\$ 6,065,704
		NET INCOME (LOSS)	\$ 14,885,909	\$ 10,533,272	\$ 8,267,849	\$ 3,348,343	\$ (4,919,506)

<b>WATER SUPPLY SYSTEM</b>				Fund:	WSS - WATER SUPPLY SYSTEM	
<b>FINANCIAL REPORT</b>				Subfund:	500 - RECEIVING/OPERATIONS	
<b>QUARTER ENDING 12/31/14</b>						
<i>Description</i>	<i>Group</i>	<i>FY14 Final</i>	<i>ADOPTED FY15 BUDGET</i>	<i>Q2FYTD-FY14</i>	<i>Q2FYTD-FY15</i>	<i>FY15/FY14 VARIANCE</i>
Retail Service Charges	1	\$ 33,935,923	\$ 35,760,430	\$ 15,932,125	\$ 15,154,677	\$ (777,448)
Wholesale Service Charges	2	\$ 3,565,337	\$ 3,638,678	\$ 2,096,616	\$ 1,725,278	\$ (371,338)
Front Footage Fees	3	\$ 91,780	\$ 80,616	\$ 24,606	\$ 34,555	\$ 9,950
Integrated Connection Fees	4	\$ 864,349	\$ 819,121	\$ 443,377	\$ 506,575	\$ 63,199
Sewage Disposal Fund-Customer Service	5	\$ 2,080,651	\$ 2,156,684	\$ 966,736	\$ 1,078,342	\$ 111,606
Penalties	6	\$ 1,336,935	\$ 1,213,742	\$ 730,834	\$ 673,738	\$ (57,096)
Miscellaneous	7/8/9	\$ 2,242,381	\$ 1,562,920	\$ 821,443	\$ 706,802	\$ (114,642)
Total Revenue		\$ 44,117,356	\$ 45,232,191	\$ 21,015,736	\$ 19,879,967	\$ (1,135,769)
Personal Services	700	\$ 11,402,597	\$ 12,699,997	\$ 5,447,623	\$ 5,391,065	\$ (56,558)
Supplies	726	\$ 703,295	\$ 1,360,973	\$ 505,660	\$ 717,040	\$ 211,380
Other Services and Charges	800	\$ 11,693,346	\$ 9,084,255	\$ 4,796,698	\$ 4,921,019	\$ 124,321
Capital Outlay	970	\$ 107,645	\$ 251,930	\$ 50,256	\$ 48,415	\$ (1,841)
Appropriation Lapse	996	\$ -	\$ (1,010,000)	\$ -	\$ -	\$ -
Transfers Out	999	\$ 1,022,957	\$ 2,264,714	\$ 511,478	\$ 254,583	\$ (256,895)
Total Expenses		\$ 24,929,839	\$ 24,651,869	\$ 11,311,716	\$ 11,332,123	\$ 20,407
<b>Net Income (Loss)</b>		<b>\$ 19,187,517</b>	<b>\$ 20,580,322</b>	<b>\$ 9,704,020</b>	<b>\$ 8,547,844</b>	<b>\$ (1,156,176)</b>

<b>WATER SUPPLY SYSTEM</b>					Fund:		WSS - WATER SUPPLY SYSTEM	
<b>FINANCIAL REPORT</b>					Subfund:		500 - RECEIVING/OPERATIONS	
<b>QUARTER ENDING 12/31/14</b>								
<b>GPFM OL3</b>	<b>Group</b>	<b>Description</b>	<b>FY14 Final</b>	<b>FY15 Budget</b>	<b>Q2FYTD-FY14</b>	<b>Q2FYTD-FY15</b>	<b>FY15/FY14 VARIANCE</b>	
451006	7	CONTRACTOR UNDERGROUND LICENSE	\$ 7,200	\$ 7,000	\$ 1,200	\$ 660	\$ (540)	
476012	7	TAPPING PERMITS	\$ 15,005	\$ 7,000	\$ 10,505	\$ 11,925	\$ 1,420	
539701	7	MI DEPT OF ENVIRONMNTL QUALITY	\$ 553,694	\$ -	\$ -	\$ -	\$ -	
607001	7	MISCELLANEOUS SERVICE FEES	\$ 497,710	\$ 502,976	\$ 244,282	\$ 239,820	\$ (4,462)	
607003	7	MONTHLY STATEMENT SERVICE FEES	\$ -	\$ -	\$ -	\$ -	\$ -	
607007	7	MATERIAL - SERVICES	\$ -	\$ -	\$ -	\$ -	\$ -	
607031	7	PRELIM/DESIGN/CONSTR ENGINEERIN	\$ -	\$ -	\$ -	\$ -	\$ -	
607033	9	SERVICES FOR CONTRACTORS	\$ 19,506	\$ 91,120	\$ (29,372)	\$ (9,757)	\$ 19,614	
607050	7	INSPECTION FEES - UTILITIES	\$ 41,589	\$ 58,884	\$ 25,819	\$ 22,381	\$ (3,438)	
607051	3	FRONT FOOTAGE	\$ 91,780	\$ 80,616	\$ 24,606	\$ 34,555	\$ 9,950	
607052	7	METER SETTING FEES	\$ 27,269	\$ 38,362	\$ 14,229	\$ 13,500	\$ (729)	
607053	4	INTEGRATED CONNECTION FEES	\$ 864,349	\$ 819,121	\$ 443,377	\$ 506,575	\$ 63,199	
607111	1	FIRE HYDRANT BILLINGS	\$ 135,576	\$ 62,693	\$ 56,384	\$ -	\$ (56,384)	
642009	9	SALE OF SCRAP MATERIAL	\$ 131,759	\$ 26,118	\$ 12,128	\$ -	\$ (12,128)	
642011	1	RETAIL METERED WATER SALES	\$ 33,793,707	\$ 35,683,535	\$ 15,872,281	\$ 15,153,740	\$ (718,541)	
642012	2	WHOLESALE WATER SALES	\$ 3,565,337	\$ 3,638,678	\$ 2,096,616	\$ 1,725,278	\$ (371,338)	
642013	1	WYOMING WATER SALES	\$ 6,640	\$ 14,202	\$ 3,460	\$ 937	\$ (2,523)	
642019	7	INVENTORY WITHDRAWALS (SALES)	\$ (103,444)	\$ -	\$ -	\$ 500	\$ 500	
642024	7	UNMETERED WATER SALES	\$ 94,933	\$ 115,031	\$ 65,358	\$ 63,643	\$ (1,716)	
659002	6	WATER PENALTIES	\$ 1,336,935	\$ 1,213,742	\$ 730,834	\$ 673,738	\$ (57,096)	
665001	8	INTEREST ON INVESTMENT	\$ 228,314	\$ 140,000	\$ (10,988)	\$ (10,605)	\$ 383	
665002	8	OTHER INTEREST INCOME	\$ -	\$ -	\$ -	\$ -	\$ -	
667002	9	RENTALS - OTHER	\$ 360	\$ -	\$ -	\$ -	\$ -	
667003	9	RENTALS - FACILITIES	\$ 648,323	\$ 561,000	\$ 440,655	\$ 454,203	\$ 13,548	
672002	8	INTEREST/PENALTIES ON SPEC ASSM	\$ 21,467	\$ 15,429	\$ 3,742	\$ 4,178	\$ 435	
675003	10	CONTRIBUTED CAPITAL	\$ 1,292,055	\$ -	\$ -	\$ -	\$ -	
676001	9	REFUNDS - EXPENDITURES	\$ -	\$ -	\$ -	\$ 50	\$ 50	
676007	9	EXPENDITURE - REIMBURSEMENT	\$ -	\$ -	\$ -	\$ 1,021	\$ 1,021	
676017	9	REIMB.FOR PERSONAL USE OF CITY	\$ -	\$ -	\$ -	\$ -	\$ -	
694002	9	CASH - OVER/UNDER	\$ 228	\$ -	\$ 276	\$ (86,441)	\$ (86,717)	
694004	9	CLAIMS/DAMAGE BILLINGS	\$ 45,472	\$ -	\$ 35,853	\$ (4,428)	\$ (40,281)	
694012	9	NON-SUFFICIENT FUNDS CHECK CHG	\$ 12,730	\$ -	\$ 7,720	\$ 5,970	\$ (1,750)	
694014	9	MISCELLANEOUS OTHER	\$ 265	\$ -	\$ 35	\$ 183	\$ 148	
698001	11	BOND PROCEEDS	\$ (1,532,480)	\$ -	\$ (1,030,939)	\$ (2,188,219)	\$ (1,157,280)	
699001	5	OPERATING TRANSFERS IN-SUBSIDY	\$ 2,080,651	\$ 2,156,684	\$ 966,736	\$ 1,078,342	\$ 111,606	
699005	12	OPERATING TRANSFERS-MISC	\$ 276,651	\$ -	\$ -	\$ -	\$ -	
		REVENUE TOTAL	\$ 44,153,582	\$ 45,232,191	\$ 19,984,797	\$ 17,691,748	\$ (2,293,049)	
7020	700	PERMANENT EMPLOYEES	\$ 6,518,738	\$ 7,216,679	\$ 3,146,903	\$ 3,022,618	\$ (124,285)	
7025	700	ACT.ASSIGNMENT	\$ 12,225	\$ 11,600	\$ 6,445	\$ 4,094	\$ (2,351)	
7040	700	TEMPORARY EMPLOYEES	\$ 86,862	\$ 94,529	\$ 23,843	\$ 51,971	\$ 28,128	
7050	700	REGULAR HOURLY RATE	\$ 3,503	\$ 7,000	\$ 860	\$ 2,268	\$ 1,408	
7055	700	TIME & ONE-HALF	\$ 364,028	\$ 354,227	\$ 168,876	\$ 218,706	\$ 49,830	
7105	700	EMPLOYERS SOCIAL SECURITY	\$ 507,427	\$ 583,937	\$ 243,203	\$ 237,449	\$ (5,754)	
7110	700	HOSPITALIZATION INSURANCE	\$ 1,533,367	\$ 1,678,270	\$ 722,015	\$ 716,469	\$ (5,546)	
7115	700	RETIREE HEALTH CARE	\$ 965,398	\$ 887,651	\$ 437,705	\$ 367,889	\$ (69,816)	
7120	700	RETIREMENT FUND CONTRIBUTION	\$ 1,318,226	\$ 1,823,030	\$ 641,496	\$ 754,565	\$ 113,068	
7125	700	SPECIAL PENSION BENEFITS	\$ 16,764	\$ 9,493	\$ 7,774	\$ 389	\$ (7,385)	
7135	700	UNEMPLOYMENT COMPENSATION	\$ 12,418	\$ 11,104	\$ 5,309	\$ 6,171	\$ 862	
7150	700	LONGEVITY PAY	\$ 67,542	\$ -	\$ 34,402	\$ -	\$ (34,402)	
7165	700	SHIFT DIFFERENTIAL	\$ 18,650	\$ 22,477	\$ 8,790	\$ 8,475	\$ (315)	
7175	700	FOOD/CLEAN/CAR ALLOWANCE	\$ -	\$ -	\$ -	\$ -	\$ -	
7199	700	DEFAULT PAYROLL	\$ (22,552)	\$ -	\$ -	\$ -	\$ -	
7260	726	SUPPLIES	\$ 801,813	\$ 1,356,123	\$ 501,924	\$ 500,755	\$ (1,169)	
7300	726	POSTAGE	\$ 2,021	\$ 1,850	\$ 308	\$ 580	\$ 272	
7680	726	CLOTHING	\$ 2,904	\$ 3,000	\$ 2,418	\$ 200	\$ (2,219)	
7710	726	INVENTORY	\$ -	\$ -	\$ 1,010	\$ 215,005	\$ 213,995	
7800	726	INVENTORY - COST OF GOODS SOLD	\$ (103,444)	\$ -	\$ -	\$ 500	\$ 500	
8140	800	COMPUTER SERVICES	\$ 704,328	\$ 694,100	\$ 353,168	\$ 347,050	\$ (6,118)	
8142	800	Motor Equipment Charges	\$ -	\$ -	\$ -	\$ 190,727	\$ 190,727	
8150	800	311 Call Center Services	\$ 533,467	\$ 541,601	\$ -	\$ 208,516	\$ 208,516	
8160	800	ENGINEERING SERVICES	\$ 30,959	\$ 57,217	\$ 18,636	\$ 9,038	\$ (9,599)	
8180	800	CONTRACTUAL SERVICES	\$ 1,574,041	\$ 1,691,951	\$ 598,048	\$ 522,988	\$ (75,060)	
8355	800	CLAIMS	\$ 295,410	\$ 281,273	\$ 147,702	\$ 140,639	\$ (7,063)	
8360	800	MEDICAL/SUPPORTIVE CHARGES	\$ -	\$ -	\$ -	\$ -	\$ -	

GPFM OL3	Group	Description	FY14 Final	FY15 Budget	Q2FYTD-FY14	Q2FYTD-FY15	FY15/FY14 VARIANCE
8450	800	INSURANCE PREMIUMS	\$ 159,964	\$ 167,913	\$ -	\$ -	\$ -
8500	800	TELEPHONE	\$ 76,134	\$ 61,168	\$ 32,264	\$ 45,245	\$ 12,981
8510	800	Employee Phone Reimbursement	\$ 583	\$ 2,854	\$ -	\$ 476	\$ 476
8800	800	COMMUNITY PROMOTION	\$ 294	\$ 3,206	\$ -	\$ -	\$ -
8850	800	ADVERTISING - ANY MEDIA	\$ -	\$ -	\$ -	\$ -	\$ -
9000	800	PRINTING & PUBLISHING	\$ 3,156	\$ 5,118	\$ 1,128	\$ 3,480	\$ 2,351
9210	800	ELECTRICITY	\$ 3,209,163	\$ 3,235,000	\$ 1,786,615	\$ 1,717,027	\$ (69,588)
9220	800	WATER	\$ 4,351	\$ 4,850	\$ 2,288	\$ 1,566	\$ (722)
9230	800	NATURAL GAS	\$ 352,050	\$ 350,000	\$ 97,650	\$ 92,968	\$ (4,682)
9300	800	MAINTENANCE SERVICE	\$ 1,498,128	\$ 845,589	\$ 681,728	\$ 457,966	\$ (223,761)
9330	800	PAVEMENT REPAIR	\$ 1,421,521	\$ 1,321,000	\$ 540,977	\$ 702,921	\$ 161,944
9410	800	BUILDINGS RENTALS OR LEASE	\$ 7,520	\$ 7,894	\$ 2,507	\$ 3,973	\$ 1,466
9420	800	EQUIPMENT RENTALS OR LEASE	\$ 1,102,484	\$ 1,286,330	\$ 458,866	\$ 355,473	\$ (103,394)
9430	800	LAND RENTAL OR LEASE	\$ 2,793	\$ 2,500	\$ 456	\$ 470	\$ 14
9440	800	VEHICLE USAGE/CAR MILEAGE	\$ 38,352	\$ 60,667	\$ 14,679	\$ 18,956	\$ 4,277
9550	800	PROFESSIONAL DEVELOPMENT	\$ 3,273	\$ 16,442	\$ 507	\$ 763	\$ 256
9552	800	OTHER TRAVEL & TRAINING	\$ 36,160	\$ 24,000	\$ 29,995	\$ 7,745	\$ (22,250)
9554	800	LOCAL BUSINESS EXPENSE	\$ 245	\$ 1,306	\$ 144	\$ 186	\$ 43
9556	800	MEMBERSHIPS	\$ 21,004	\$ 46,077	\$ 2,553	\$ 5,441	\$ 2,888
9558	800	SUBSCRIPTIONS AND PUBLICATIONS	\$ 4,045	\$ 3,206	\$ -	\$ -	\$ -
9610	800	FEES	\$ 345,956	\$ 72,000	\$ 25,299	\$ 86,211	\$ 60,911
9616	800	ADMINISTRATIVE SERVICES	\$ 148,743	\$ 160,000	\$ -	\$ -	\$ -
9617	800	Late Fees-Utilities	\$ 3,200	\$ -	\$ 258	\$ -	\$ (258)
9620	800	BAD DEBT WRITE-OFFS	\$ 112,597	\$ -	\$ -	\$ -	\$ -
9622	800	REFUSE COLLECTION CHARGES	\$ 3,425	\$ 4,100	\$ 1,231	\$ 1,196	\$ (36)
9624	800	PROPERTY TAXES	\$ -	\$ -	\$ -	\$ -	\$ -
9630	800	CAPITAL CONTRIBUTIONS	\$ (8,074,510)	\$ -	\$ -	\$ -	\$ -
9680	800	DEPRECIATION	\$ 8,376,548	\$ -	\$ -	\$ -	\$ -
9735	970	BUILDING ADDITIONS/IMPROVEMENTS	\$ -	\$ -	\$ -	\$ -	\$ -
9740	970	BOOKS/OTHER MATERIALS/ARTIFACTS	\$ -	\$ -	\$ -	\$ -	\$ -
9750	970	FURNITURE	\$ -	\$ 5,000	\$ -	\$ -	\$ -
9760	970	EQUIPMENT	\$ 98,089	\$ 240,330	\$ 40,700	\$ 50,305	\$ 9,605
9765	970	SOFTWARE	\$ 9,556	\$ 6,600	\$ 9,556	\$ 9,110	\$ (446)
9775	970	VEHICLES	\$ -	\$ -	\$ -	\$ -	\$ -
9800	970	CONSTRUCTION IN PROGRESS	\$ -	\$ -	\$ -	\$ (11,000)	\$ (11,000)
9920	990	PMT TO REFUND BONDS- ESCROW AC	\$ -	\$ -	\$ -	\$ -	\$ -
9950	990	INTEREST & PAYING AGENT FEES	\$ 5,441,217	\$ 4,927,514	\$ 34,452	\$ 46,685	\$ 12,233
9952	990	Amortization Expense	\$ (89,194)	\$ -	\$ -	\$ -	\$ -
9960	996	APPROPRIATION LAPSE	\$ -	\$ (1,010,000)	\$ -	\$ -	\$ -
9980	999	Special Items	\$ -	\$ -	\$ -	\$ -	\$ -
9990	999	OPERATING TRANS OUT-SUBSIDIES	\$ -	\$ -	\$ -	\$ -	\$ -
9992	999	OPERATING TRANSFERS-A87 COST	\$ 1,000,266	\$ 485,910	\$ 500,133	\$ 242,955	\$ (257,178)
9993	999	OPERATING TRANS-CAPT PROJECTS	\$ 5,072,000	\$ 5,971,000	\$ 5,072,000	\$ 5,971,000	\$ 899,000
9994	999	OPERATING TRANS-DEV CENTER	\$ 22,691	\$ 23,256	\$ 11,345	\$ 11,628	\$ 283
9995	999	OPERATING TRANS-MISC	\$ -	\$ 1,755,548	\$ -	\$ -	\$ -
		EXPENDITURE TOTAL	\$ 35,655,901	\$ 37,413,491	\$ 16,418,168	\$ 17,349,808	\$ 931,640
		NET INCOME (LOSS)	\$ 8,497,680	\$ 7,818,700	\$ 3,566,629	\$ 341,940	\$ (3,224,689)



# CITY OF GRAND RAPIDS AGENDA ACTION REQUEST

**DATE:** February 4, 2015

**TO:** Gregory A. Sundstrom, City Manager

**FROM:** Jana M. Wallace, Debt & Authority Finance Officer

**SUBJECT:** **Report of Bond Sale –  
\$25,370,000 Water Supply System  
Revenue Refunding Bonds, Series 2015**

On Monday, January 29, 2015 the City priced \$25,370,000 Water Supply System (the “System”) Revenue Refunding Bonds (the “Bonds”) to advance refund the System’s Series 2005 Bonds maturing on January 1<sup>st</sup> in the years 2017 to 2035, inclusive; to defease the System’s Series 2005 Bonds maturing on January 1, 2016; to defease the System’s Series 2009 Bonds maturing on January 1<sup>st</sup> in the years 2016 to 2018, inclusive; and to pay certain costs and expenses related to the issuance of the Bonds.

There were two reasons for this refunding bond issue. First, based on December’s market conditions, the NPV savings were expected to be 10.71% or \$3.27 million. The second reason for the refunding was to restructure the Series 2005 and Series 2009 debt to reduce the FY2016 through FY2018 maximum annual debt service (“MADS”) payments by approximately \$1.6 million per year. Reducing the annual debt service payments will improve the System’s debt coverage ratio.

The attached graphs illustrate the pre-refunding “current state” of the System’s MADS and the post-refunding “future state” of the System’s MADS. For 2015, the System rate setting methodology generates revenue that barely complies with bond covenants requiring debt service coverage ratio of at least 1.2. After the Series 2015 Bonds are issued, the projected 2016 debt coverage ratio will increase to at least 1.3 times, which is more consistent with the rating agencies’ expectations for an AA-rated credit like the System.

Due to historically low municipal bond interest rates, actual net present value savings were \$3,782,744.48 or 12.398376% which exceeds the City’s 5% net present value savings threshold. MADS will decrease by an average of \$1,783,241 per year for FY2016 through FY2018 then \$23,346 annually for fiscal years 2019 through 2035.

Gregory A. Sundstrom  
February 4, 2015  
Page 2

The Bond Purchase Agreement was signed on January 29, 2015 by City Manager Gregory Sundstrom. The issue will close and the various transactions will be completed on Wednesday, February 25, 2015. Prior to closing, the filing of a report disclosing the following information to the City Commission is required:

A.	Date of Issue	February 25, 2015
	Manner of Sale	Negotiated
	Principal Amount	\$25,370,000
	Maturity Schedule	01/01/2019 – 01/01/2035
B.	Sources and Uses of Funds	See Attachment 1
C.	Interest Rates	See Attachment 2
D.	Reserve Requirement / Credit Facility	Cash Funded Reserve / None
E.	Date of Early Redemption	On or after January 1, 2026

The success of the Series 2015 Bond issue is also due to the System's ongoing capital investment program as well as its strong rate study methodology and operating practices, including the 30-year 'evergreen' customer community agreements which assure potential bond buyers of the System's customer continuity. Bond rating agencies have acknowledged these strengths and assigned Aa2 and AA ratings to this issue and re-affirmed these ratings for the System's earlier senior lien debt.

The bonds were underwritten by the selling team of Citigroup Global Markets Inc., Loop Capital Markets, and Robert W. Baird & Co. The bond sizing includes costs of issuance – bond counsel, underwriters' counsel, rating agency, auditor, trustee and other fees as well as staff time and printing costs and compensation for the underwriting team for marketing the issue.

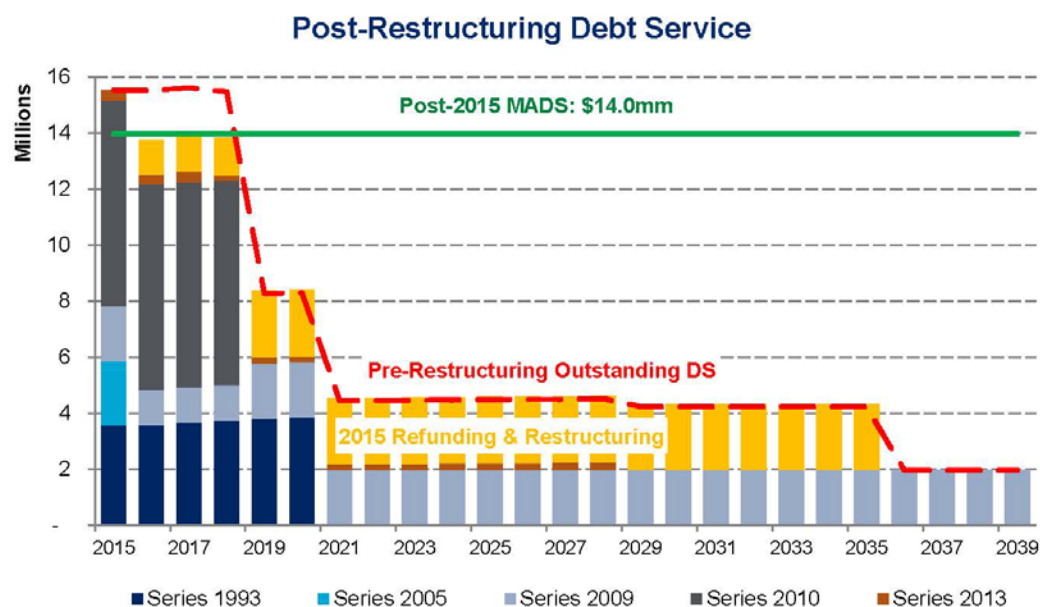
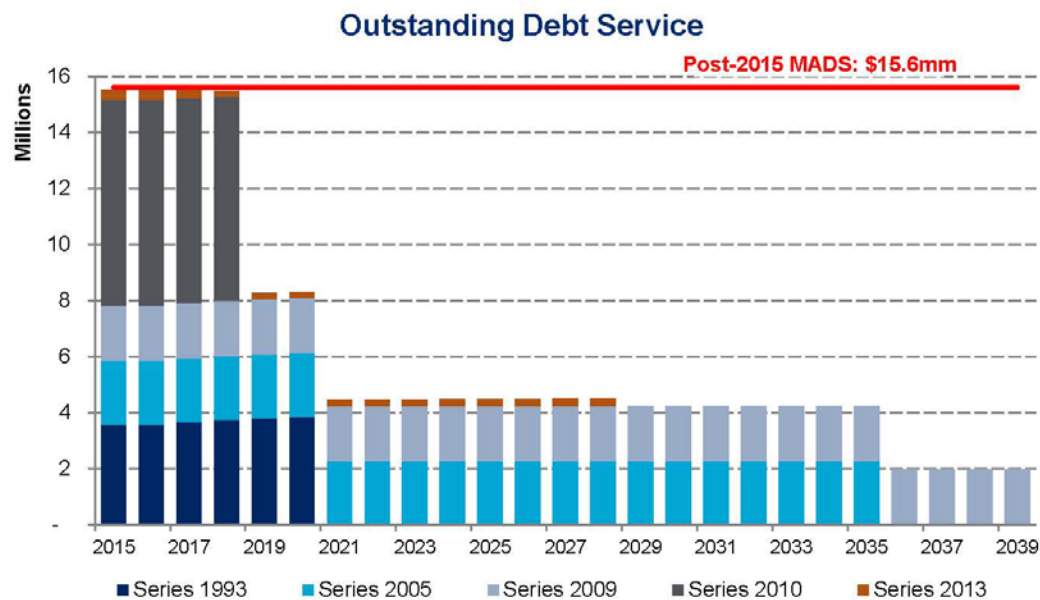
Please contact me at 616-456-4514 or via email at [jwallace@grcity.us](mailto:jwallace@grcity.us) if you have any questions.

Attachments

cc: Scott Buhrer, Chief Financial Officer  
Richard A. Wendt, Bond Counsel

bondswss2015roco.docx jmw

# GR WSS – Debt Service Comparison



## SOURCES AND USES OF FUNDS

City of Grand Rapids, Michigan

2015 Revenue Refunding Bonds

Final Verified Cash Flows

Sources:	Refunding of 2005 Bonds	Refunding of 2009 Bonds	Total
Bond Proceeds:			
Par Amount	23,680,000.00	1,690,000.00	25,370,000.00
Premium	4,911,614.45	350,760.90	5,262,375.35
	28,591,614.45	2,040,760.90	30,632,375.35
Other Sources of Funds:			
Reserve Release	1,363,834.61	97,672.55	1,461,507.16
2005 Water System Bond Fund	189,587.50		189,587.50
	1,553,422.11	97,672.55	1,651,094.66
	\$ 30,145,036.56	\$ 2,138,433.45	\$ 32,283,470.01

Uses:	Refunding of 2005 Bonds	Refunding of 2009 Bonds	Total
Refunding Escrow Deposits:			
Cash Deposit	1.79	2.07	3.86
SLGS Purchases	29,887,728.00	2,120,194.00	32,007,922.00
	29,887,729.79	2,120,196.07	32,007,925.86
Delivery Date Expenses:			
Cost of Issuance	111,562.93	7,962.07	119,525.00
Underwriter's Discount	141,582.92	10,106.52	151,689.44
	253,145.85	18,068.59	271,214.44
Other Uses of Funds:			
Additional Proceeds	4,160.92	168.79	4,329.71
	\$ 30,145,036.56	\$ 2,138,433.45	\$ 32,283,470.01



## BOND DEBT SERVICE

City of Grand Rapids, Michigan  
 2015 Revenue Refunding Bonds  
 Final Verified Cash Flows

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
7/1/2015			\$ 443,975	\$ 443,975	
1/1/2016			634,250	634,250	
6/30/2016					1,078,225
7/1/2016			634,250	634,250	
1/1/2017			634,250	634,250	
6/30/2017					1,268,500
7/1/2017			634,250	634,250	
1/1/2018			634,250	634,250	
6/30/2018					1,268,500
7/1/2018			634,250	634,250	
1/1/2019	\$ 985,000	5.000%	634,250	1,619,250	
6/30/2019					2,253,500
7/1/2019			609,625	609,625	
1/1/2020	1,035,000	5.000%	609,625	1,644,625	
6/30/2020					2,254,250
7/1/2020			583,750	583,750	
1/1/2021	1,080,000	5.000%	583,750	1,663,750	
6/30/2021					2,247,500
7/1/2021			556,750	556,750	
1/1/2022	1,135,000	5.000%	556,750	1,691,750	
6/30/2022					2,248,500
7/1/2022			528,375	528,375	
1/1/2023	1,190,000	5.000%	528,375	1,718,375	
6/30/2023					2,246,750
7/1/2023			498,625	498,625	
1/1/2024	1,255,000	5.000%	498,625	1,753,625	
6/30/2024					2,252,250
7/1/2024			467,250	467,250	
1/1/2025	1,315,000	5.000%	467,250	1,782,250	
6/30/2025					2,249,500
7/1/2025			434,375	434,375	
1/1/2026	1,385,000	5.000%	434,375	1,819,375	
6/30/2026					2,253,750
7/1/2026			399,750	399,750	
1/1/2027	1,450,000	5.000%	399,750	1,849,750	
6/30/2027					2,249,500
7/1/2027			363,500	363,500	
1/1/2028	1,525,000	5.000%	363,500	1,888,500	
6/30/2028					2,252,000
7/1/2028			325,375	325,375	
1/1/2029	1,600,000	5.000%	325,375	1,925,375	
6/30/2029					2,250,750
7/1/2029			285,375	285,375	
1/1/2030	1,675,000	5.000%	285,375	1,960,375	
6/30/2030					2,245,750
7/1/2030			243,500	243,500	
1/1/2031	1,760,000	5.000%	243,500	2,003,500	
6/30/2031					2,247,000
7/1/2031			199,500	199,500	
1/1/2032	1,850,000	5.000%	199,500	2,049,500	
6/30/2032					2,249,000
7/1/2032			153,250	153,250	
1/1/2033	1,945,000	5.000%	153,250	2,098,250	
6/30/2033					2,251,500
7/1/2033			104,625	104,625	
1/1/2034	2,040,000	5.000%	104,625	2,144,625	
6/30/2034					2,249,250
7/1/2034			53,625	53,625	
1/1/2035	2,145,000	5.000%	53,625	2,198,625	
6/30/2035					2,252,250
	\$ 25,370,000		\$ 16,498,225	\$ 41,868,225	\$ 41,868,225

**Water/Sewer UAB Report  
January 2015**

Project Name	Contractor	Award Date	Substantial Completion Date	Final Completion Date	Water Fund Authorized NTE Amt	Sewer Fund Authorized NTE Amt	Est. Year for Rates	Integrated (Y/N)
Improvements to the Berms at the Wastewater Treatment Plant	Kamminga & Roodvoets, Inc.	1/27/2015	Phase I- 5/22/2015 Phase II- 7/24/2015	8/17/2015		\$ 231,925.00	2016	Integrated

# MOODY'S

## INVESTORS SERVICE

### **New Issue: Moody's assigns Aa2 rating to the City of Grand Rapids' (MI) \$25.9 million Water Revenue Bonds, Series 2015; outlook stable**

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Global Credit Research - 23 Jan 2015

#### **Aa2 rating and stable rating applies to \$90.2M of water revenue debt**

GRAND RAPIDS (CITY OF) MI WATER ENTERPRISE  
Water Enterprise  
MI

#### **Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
Water Supply System Revenue Refunding Bonds, Series 2015	Aa2
<b>Sale Amount</b>	\$25,970,000
<b>Expected Sale Date</b>	01/28/15
<b>Rating Description</b>	Revenue: Government Enterprise

#### **Moody's Outlook** STA

NEW YORK, January 23, 2015 --Moody's Investors Service has assigned a Aa2 rating to the City of Grand Rapids' (MI) \$26 million Water Supply System Revenue Refunding Bonds, Series 2015. Concurrently, Moody's has affirmed the Aa2 rating on previously issued water revenue bonds. Post-sale, the city will have \$90.2 million of outstanding senior lien water revenue debt and \$13.6 million in unrated junior lien water revenue debt.

#### **SUMMARY RATING RATIONALE**

The Aa2 water revenue rating reflects the system's moderate size that encompasses a diverse service area, strong system liquidity, and narrow debt service coverage. Also incorporated into the Aa2 rating are satisfactory legal covenants and the city's unlimited rate setting authority.

#### **OUTLOOK**

The stable outlook is based on the expectation that the system will maintain stable financial operations supported by a robust rate setting process.

#### **WHAT COULD MAKE THE RATING GO UP**

- Significant expansion of the system's customer base and strengthening of socio-economic profile
- Substantial strengthening of annual debt service coverage

#### **WHAT COULD MAKE THE RATING GO DOWN**

- Material contraction of the system's customer base
- Reductions in cash reserves and net working capital
- Failure to maintain adequate debt service coverage

#### **STRENGTHS**

- Diverse service area that includes the City of Grand Rapids (Aa2 stable) and neighboring communities
- Strong system liquidity

- Unlimited rate setting authority coupled with an established methodology to annually adjust rates

## CHALLENGES

- Narrow debt service coverage
- Relatively weak debt service reserve requirement

## RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

## DETAILED RATING RATIONALE

### SERVICE AREA AND CUSTOMER BASE: MODERATELY SIZED SYSTEM THAT SERVES DIVERSE AREA THAT INCLUDES GRAND RAPIDS AND NEIGHBORING COMMUNITIES

The system is moderately sized with operating and maintenance expenses of \$23.9 million in fiscal 2014. The utility maintains 30-year retail or wholesale agreements with seven neighboring municipalities, including the cities of East Grand Rapids, Kentwood, and Walker (Aa2). The enterprise also has a separate agreement to provide water service to portions of Ottawa County (Aaa). Usage within the City of Grand Rapids accounts for approximately two-thirds of billed volume. Every five years, the municipal customers have the option to renew the agreements, effectively resulting in a 25-year termination notification. The system has a diverse customer base with the top ten customers comprising a modest 5% of estimated fiscal 2015 operating revenues. The two largest users, Veolia Energy and Lacks Trim Systems, accounted for a minimal 0.86% and 0.73% of revenues, respectively.

Grand Rapids serves as the economic hub for the western side of the state, a role that is bolstered in part by the presence and stability of multiple healthcare and educational institutions. The city and regional economy also maintain close ties to the durable goods industry. As of October 2014, the unemployment rate in the city of Grand Rapids was 5.7% on par with the national average of 5.5%, but below the state rate of 6.4%. The Grand Rapids metropolitan area has been undergoing economic recovery and expansion with a labor force that has grown 7% since 2011. Despite the growth, resident income within the city of Grand Rapids continues to trail the nation with median family income at 72% of the US. The median family income within Ottawa County is stronger at 103% of the US.

### FINANCIAL OPERATIONS AND POSITION: STRONG LIQUIDITY SUPPORTED BY STRONG RATE SETTING PRACTICES; NARROW DEBT SERVICE COVERAGE

The financial position of the Grand Rapids water enterprise will likely remain sound given continued stability of the customer base and annual review of water rates. Since 1978, the city has conducted an annual rate study based on an established rate setting methodology that projects annual revenue requirements. Management conducts the study from August through November of each year to determine the amount of revenues necessary to meet historical cost requirements plus anticipated cost increases. Rates have decreased three of the last four years as system expenses have dropped due to various efficiency initiatives. Moderate annual rate increases are forecasted through 2019.

Debt service coverage has historically been narrow compared to similarly-rated enterprises. Annual transfers to the water utility from the sewer utility are reimbursements for customer service operations, while transfers out to the General Fund account for the water utility's share of administration expenses. Accounting for such transfers, senior lien debt service coverage dropped to a narrow 1.2 times in fiscal 2014 from 1.5 times in fiscal 2013. Officials attribute the decline in coverage to reduced consumption given weather conditions. Overall debt service coverage including junior lien payments was weak at 1.1 times in fiscal 2014. Management projects annual senior lien debt service coverage will remain at a narrow 1.2 times in fiscal 2015 and then strengthen in coming years to between 1.3 and 1.5 times as the current issuance will lower upcoming debt service payments and additional rate increases take effect. With the current debt issuance, the enterprise will extend debt service on three maturities to achieve the higher coverage levels, though substantial savings from the refunding is still expected. Should the enterprise fail to maintain coverage above its rate covenant in fiscal 2015 as estimated or fail to improve coverage going forward as projected, it would likely place downward pressure on the water revenue rating.

## Liquidity

As of the close of fiscal 2014, the system had very strong reserves with net working capital of 138% of operating

and maintenance expenses and 448 days of cash on hand. Liquidity declined from 517 days of cash on hand in fiscal 2013 due to cash financing of the system's debt service reserve that had previously been surety funded. Officials project cash balances will remain stable in fiscal 2015 and fiscal 2016.

#### DEBT AND OTHER LIABILITIES: MANAGEABLE DEBT RATIO

The utility's debt burden is expected to remain manageable. At the close fiscal 2013, the system's debt to operating ratio was a strong 2.4 times while utility's debt ratio was a manageable 32%. The utility may borrow as much as \$10.3 million in junior lien revenue bonds in the coming year for the construction of pumping stations. The utility may also borrow an additional \$10 million in senior lien revenue bonds to replace water mains as the streets are repaired.

#### Debt Structure

All of the enterprise's debt is fixed rate and amortizing. The legal provisions for the current bonds are satisfactory and provide adequate security for bondholders, despite inclusion of a relatively weak debt service reserve requirement. The enterprise is required to maintain a debt service reserve fund at the lesser of (1) maximum annual debt service (MADS) on outstanding debt or (2) the sum of the maximum annual interest payments on each series of outstanding bonds, as determined on the date of issuance of each series. In fiscal 2014, the enterprise began fully funding the reserve with cash. Previously, the enterprise had relied, in part, on surety policies provided by National Public Finance Guarantee Corp (A3 / negative outlook). The surety policies remain in place providing additional security. The rate covenant calls for net revenues that provide at least 120% of annual debt service coverage on senior lien bonds. The ordinance also includes a senior lien additional bonds test that requires pro-forma net revenues provide 120% of MADS in the preceding fiscal year and five forecasted fiscal years.

#### Debt-Related Derivatives

The enterprise has no exposure to derivatives.

#### Pensions and OPEB

The city of Grand Rapids has reported pension liabilities of \$103 million associated with two single-employer defined benefit pension plans. The city's General Retirement System was closed to new participants on June 30, 2014. The city's water and sewer enterprises account for an average of 13% of the city's pension contributions. The three year average net pension liability (ANPL) for water and sewer enterprise share of pensions is \$76.5 million, or a low 0.83 of gross revenues. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace city's reported liability information, but to improve comparability with other rated entities.

#### MANAGEMENT AND GOVERNANCE

The city commission has unlimited rate setting authority. The city sets its water rates according to its annual rate study. Although subject to review by the city commission, officials report that there has long been a strict adherence to setting rates based on the methodology. All transfers made to the General Fund are based on administrative costs with no payment in lieu of taxes or other general operational support from the enterprise.

#### KEY STATISTICS

Asset condition (remaining useful life): 35 years

System size: \$23.9 million

Service area wealth (MFI): 103% (Ottawa County)

Annual debt service coverage: 1.1 times

Senior lien debt service coverage: 1.2

Days Cash on Hand: 448 days

Debt to Operating Revenues: 2.4 times

Rate Covenant: 1.20 times MADS

## OBLIGOR PROFILE

Located in Kent County (Aaa stable), the enterprise provides treatment and distribution of water collected from Lake Michigan for the City of Grand Rapids, and several neighboring communities. Total population within the service area is estimated at 280,000.

## LEGAL SECURITY

Debt service on the Series 2015 bonds is secured by a senior lien on net revenues of the city's water system.

## USE OF PROCEEDS

The Series 2015 bonds will advance refund and defease various maturities of the city's Water System Revenue Bonds, Series 2005 and Water System Revenue Bonds, Series 2009 for net present value savings and to restructure payments. Final bond maturity would not be extended, but the 2016, 2017, and 2018 maturities will be extended.

## PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Municipal Utility Revenue Debt published in December 2014. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

## REGULATORY DISCLOSURES

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## Summary:

# Grand Rapids, Michigan; Water/Sewer

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## Summary:

# Grand Rapids, Michigan; Water/Sewer

### Credit Profile

US\$25.97 mil wtr supp sys rev rfdg bnds ser 2015 due 01/01/2035

*Long Term Rating*

AA/Stable

New

Grand Rapids wtr

*Long Term Rating*

AA/Stable

Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Grand Rapids, Mich.'s series 2015 water supply system revenue refunding bonds. At the same time, we affirmed our 'AA' underlying rating (SPUR) on the city's parity water supply system debt. The outlook is stable.

The 'AA' ratings reflect our assessment of the water supply system's:

- Large and stable customer base, which helps to support a diverse revenue base;
- Ample system capacity;
- Rates we consider affordable despite only adequate income levels;
- Maintenance of strong liquidity levels; and
- A wide array of management policies that we consider supportive of credit quality.

The strengths are offset by the utility's lower total debt service coverage (DSC) of about 1.15x that occurred in the 2014 fiscal year, combined with projections that indicate DSC in 2015 will be similar. In previous years, DSC has generally been at least 1.3x, and management's projections indicate that it will return to at least these levels. We could lower the rating or revise the outlook to negative if the city does not meet or exceed these projections.

We also have noted that the city's water system has ongoing debt needs, although the city will determine the exact amount and timing of new bonds and projects to be funded with either bonds or system revenues. From 2016-2019, Grand Rapids projects to spend about \$57 million in water system repair and replacement. Important credit factors that we will consider as the city funds these projects will be the water system's level of unrestricted liquidity, pro forma DSC incorporating additional debt to be issued, and debt-to-asset ratios. Depending on how capital spending affects these factors, we would expect the effects on the rating to be neutral or possibly negative, especially if they produce results we believe to be inconsistent with the current rating level.

Net revenues of Grand Rapids' water enterprise system secure the series 2015 bonds. The city will use the bond proceeds to refund its existing 2005 and 2009 bonds. Other bond provisions include the following:

- A covenant to raise rates that generate at least 1.2x annual DSC;
- A limitation on issuing additional bonds only if net revenues for both the fiscal year preceding to the proposed issuance and five fiscal years forecasted after issuance are at least 1.2x annual debt service; and
- A debt service reserve funded at the lesser of maximum annual debt service (MADS), maximum annual interest

payment, or the maximum amount permitted by law.

Grand Rapids' water system provides water service to about 81,000 metered accounts covering a service population of 275,000. Apart from the city, the system serves six communities in Kent County and two additional ones in Ottawa County. The customer base is diverse, with the 10 largest retail customers accounting for 4% of annual billings in 2014. We also note that revenues from municipal customer communities that are supplied with water through various water supply agreements represent about 40% of operating revenues, which, in our view, results in an even more diverse revenue stream.

The city's access to Lake Michigan provides the system with a plentiful water supply, and the system is capable of fully treating up to 135 million gallons per day (mgd) at its one filtration plant, which compares well with peak usage for fiscal 2014 of 63.7 mgd.

We consider the rates affordable, even with management raising or lowering rates as needed to meet its annual revenue requirements. Current monthly rates for Grand Rapids residents are \$26.77 per 1,000 cubic feet, including a \$9.77 readiness-to-serve charge. The total water bill accounts for just 1.1% of median household effective buying income, which is considered adequate at 72% of the national average. Rates charged to municipal customer communities are calculated pursuant to annual rate studies. The methodology for calculating the communities' revenue requirements are integrated into the customer agreements, and the imposition of new rates cannot be delayed by the communities (although arbitration is allowed if a dispute arises). We view this rate-setting mechanism as a positive credit factor because it provides for a more predictable revenue stream. However, as with most utilities we rate, revenues would still be somewhat subject to changes in metered flow since the rate mechanism provides for both commodity and readiness-to-serve components.

System liquidity has historically been strong, with liquidity levels in excess of one year of cash since 2012. In fiscal 2014, the water utility had \$28.4 million, or 434 days' unrestricted cash and investments, which we consider very strong. Projections indicate reductions in unrestricted cash through 2017, reaching a low point of about 100 days' cash, and then increasing again through 2019.

In addition to the aforementioned financial and economic indicators, we view management's policies related to the water system to be a credit strength. There is a minimum unrestricted cash balance target equivalent to 25% of annual expenses. The city maintains long-term capital and financial plans, which are both updated annually. Water rates are revised annually, and management has indicated that this practice will continue. The city also has a formal investment policy and is in the process of formalizing its debt guidelines into a policy. The investment policy addresses not only permitted investments, but also reporting requirements, liquidity, and requirements financial institutions must meet before the city invests its funds. As far as the debt guidelines, they include a maximum debt amortization of 30 years and a duration no longer than 80% of the financed asset's useful life, a minimum refunding target, and disclosure requirements. It is our understanding that the city is working to formalize these guidelines by the end of 2015.

## Outlook

The stable outlook reflects Standard & Poor's view that the water system's large and diverse service base should help to support an overall financial profile we consider at least good, despite DSC that has recently been lower than historical trends. The outlook also reflects our expectation that the water utility's actual financial performance will be at least as good as what the current projections indicate, and that the city will manage the funding of its capital plan in a fashion that does not deteriorate the utility's financial position. If either of these two circumstances are not realized, it could weaken the rating or outlook, but conversely, we do not expect the rating to move upward within the two-year outlook horizon.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Key Water And Sewer Utility Credit Ratio Ranges, Sept. 15, 2008
- USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011

### Related Research

- U.S. State And Local Government Credit Conditions Forecast, Dec. 10, 2014
- U.S. Municipal Water And Sewer Utilities 2014 Sector Outlook: Learning To Do More With Less, Jan. 9, 2014
- 2014 Review Of U.S. Municipal Water And Sewer Ratings: How They Correlate With Key Economic And Financial Ratios, May 12, 2014

### Ratings Detail (As Of January 23, 2015)

Grand Rapids wtr (ASSURED GTY)

*Unenhanced Rating*

AA(SPUR)/Stable

Affirmed

Grand Rapids wtr (FGIC)

*Unenhanced Rating*

AA(SPUR)/Stable

Affirmed

#### **Grand Rapids wtr**

*Unenhanced Rating*

AA(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

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## Coke's new 'premium milk' bottled in W. Mich.

By Heather Walker and AP Food Industry Writer Candice Choi

Published: February 3, 2015, 9:23 am | Updated: February 3, 2015, 11:14 pm

COOPERSVILLE (WOOD/AP) — Coca-Cola announced plans Tuesday to distribute a West Michigan-made milk nationally.

Some of the ultra-filtered **Fairlife** (<http://fairlife.com/>) milk comes from West Michigan cows, and is bottled in Coopersville.

"This is a very positive thing for West Michigan and really all of Michigan, because this one site is delivering products through out the entire country," Fairlife Senior Vice President of Operations Tim Doelman said in a Tuesday evening phone interview with 24 Hour News 8.

He said the company chose to invest millions of dollars in Coopersville for a handful of reasons.

"We have great farms around here. That's probably the most important thing, that we have a strong healthy farmer base with making very high-quality milk," Doelman said.

The production plant is the old Delphi site in Coopersville. The majority of the milk bottled there comes from farms within 60 miles.

Doelman said the people were also a part of deciding to invest in Michigan.

"This part of the world has a great work ethic, a great labor force," he said.

The company will be putting that force to work. The plant already employs around 170 people. Another 60 will be added in the next year in a half. The jobs are all considered tech positions. A college education is preferred, but not required.

"We just did a big job fair," Doelman said. "It was very successful."

Not all Fairlife milk comes from Michigan. The company's flagship farm is in Fair Oaks, Ind., **according to its website.** (<http://fairlife.com/our-farms/>)

Coke is betting people will pay twice as much for the premium milk that has more protein and less sugar than regular.

The national rollout of Fairlife over the next several weeks is one way the world's biggest beverage maker is seeking to diversify its offerings as Americans continue turning away from soft drinks, the Associated Press reports. It also comes as people increasingly seek out some type of functional boost from their foods and drinks, whether it's more fiber, antioxidants or protein. That has left the door open for Coke step into the milk case, where the differences between options remain relatively minimal.

"It's basically the premiumization of milk," Sandy Douglas, president of Coca-Cola North America, said at an analyst conference in November. If developed properly, Douglas said it is the type of product that "rains money."

Fairlife, which Coca-Cola formed in partnership with dairy cooperative Select Milk Producers in 2012, says its milk goes through a filtration process that's akin the way skim milk is made. Filters are used to separate the various components in milk. Then, more of the favorable components are added, while the less favorable ones are taken out.

Fairlife says its milk has 50 percent more protein, 30 percent more calcium and 50 percent less sugar than regular milk, and is lactose free. The same process is used make Fairlife's Core Power, a drink marketed to athletes that has even more protein and calcium than Fairlife milk.



Sue McCloskey, who developed the system used to make Fairlife with her husband Mike McCloskey, said Fairlife milk will be marketed more broadly to women who are the "gatekeepers" for their families' nutritional needs.

Even while touting its nutritional advantages, however, Fairlife will need to be careful about communicating how its drink is made. Jonas Feliciano, senior beverage analyst for market researcher Euromonitor, noted people increasingly want drinks that "do something for me," but that Fairlife's juiced-up nutritional stats may make people hesitant about how natural it is.

"They have to explain that this is not an abomination of nature," Feliciano said.

Already, Fairlife has been subject to some teasing. After the drink was referenced in Coke's analyst presentation, comedian Stephen Colbert referred to it as "extra expensive science milk" and made fun of the elaborate way it's made.

"It's like they got Frankenstein to lactate," he said.

Colbert also took a dig at the wholesome image Fairlife is trying to project, noting that it's made by the "nature loving health nuts at Coca-Cola." That may explain why Coca-Cola is distancing itself from the product; a representative for the Atlanta-based company referred questions to Fairlife's outside representative.

In a phone interview, Fairlife CEO and former Coke executive Steve Jones said he thinks his company can help reverse the decades-long decline in milk consumption. Already, major retailers including Wal-Mart, Target, Kroger and Safeway have agreed to carry it.

The drink has already started appearing on shelves and is expected to continue rolling out nationally over the next several weeks. It comes in sleek, plastic bottles reminiscent of milk cartons.

At a supermarket in Indianapolis, a 52-ounce bottle of Fairlife was being sold for \$4.59. By comparison, the national average cost for a half-gallon of milk, which is 64 ounces, is \$2.18, according to the USDA. For organic milk, the average is \$3.99.

Fairlife is just one of many ventures by Coca-Cola, which also recently took stakes in energy drink maker Monster Beverages and Keurig Green Mountain, which makes single-serving coffee machines and pods.

Over time, Coca-Cola is hoping Fairlife can become a significant driver of growth. For now, Fairlife is still trying to find its footing in the marketplace.

This summer, the company ran ads in the test markets of Minneapolis and Denver featuring women wearing nothing but milk splashes in the shape of dresses. The images were accompanied by phrases like, "Better Milk Looks Good On You," leading them to be deemed sexist in some corners.

Jones said the ads were intended to be "disruptive," since new products need to grab people's attention.

But moving forward, he said Fairlife will focus on its authentic milk taste in national marketing, which will roll out around the end of March or April.

While declining to provide details, Jones said Fairlife intends to "crank up the awareness level very, very quickly."